

Report of the Board of Directors

(Consolidated figures. Figures in parentheses refer to the same period of 2010 unless otherwise stated)

- Profit before tax: NOK 325m (NOK 255m)
- Profit Q1: NOK 255m (NOK 188m)
- Return on equity: 13.2% (12.1%)
- 12-month growth in lending: 11.4% (10.0%)
- 12-month growth in deposits: 14.1% (4.8%)
- Tier 1 capital adequacy: 10.6% (11.0%)
- Earnings per equity capital certificate (ECC): NOK 1.64 (NOK 1.09)

Good result in first quarter 2011

Highlights:

- Substantial increase in pre-tax profit compared with same period of 2010
- Good income growth in core operations and good return on financial investments
- Net incomings on loan losses
- Robust financial position and good funding
- Satisfactory growth

In the first quarter 2011 SpareBank 1 SMN recorded a profit of NOK 255m (NOK 188m) and a return on equity of 13.2% (12.1%). Profit before tax was NOK 325m (NOK 255m).

Operating income rose by 11% in the first quarter to NOK 548m (NOK 494m). Both net interest income and commission income rose compared with the first quarter 2010.

Return on financial assets was NOK 118m (NOK 36m), of which income on owner interests was NOK 54m (NOK 41m).

Operating expenses totalled NOK 348m in the first quarter 2011 (NOK 206m). The one-time effect of a net write-back of AFP (early retirement) liabilities in the first quarter of 2010 came to a total of NOK 117m.

Net income of NOK 6m (net loss of NOK 68m) was recorded on loans and guarantees in the first quarter.

As of the first quarter 2011 12-month growth in lending was 11.4% (10.0%) and 12-month growth in deposits was 14.1% (4.8%).

Earnings per ECC were NOK 1.64 in the first quarter, and book value per ECC was NOK 49.34 at quarter-end. The market price was NOK 50.00.

Net interest income

Net interest income in the first quarter was NOK 327m (300m). This is mainly due to

- Higher volumes of loans and deposits

- Increased margins on deposits
- From 2011 banks are exempt from payment of levy to the Norwegian Banks' Guarantee Fund. This comes to NOK 48m on an annual basis.
- In Q1 2010 Sparebank 1 SMN had funding cost to the State finance fund, approximately NOKm 15

Commission on home mortgage loans transferred to SpareBank 1 Boligkreditt is recorded as commission income, not interest income. It amounted to NOK 25.6m (28.0m) in the first quarter.

As of the end-March 2011 home mortgage loans worth NOK 20.0bn (17.7bn) had been transferred to SpareBank 1 Boligkreditt.

Increased commission income

Commission income totalled NOK 221m in the first quarter of 2011 (NOK 194m), and incomes rose in a number of areas. Incomes from property broking represent the largest increase, at the same time as income is accruing to the Group from the new head office –rental income from external tenants and users of the conference facilities.

Commission income, NOKm	31 March 2011	31 March 2010	Change
Payment transfers	49	46	3
Savings	14	18	-4
Insurance	25	22	3
SpareBank 1 Boligkreditt	26	28	-2
Guarantee commission	8	6	1
Real estate agency	64	52	11
Accountancy services	18	14	4
Active management	3	3	0
Income from new head office	4	0	4
Other commissions	11	5	6
Total	221	194	27

Good return on financial investments

Overall return on financial investments (excluding the Bank's share of the profit/loss of affiliates and joint ventures) was NOK 65m (-5m).

The Bank's share portfolios showed net gains of NOK 30m (net loss of 10m), of which NOK 21m comprises gains on the portfolio of SpareBank 1 SMN Invest AS (loss of NOK 12m).

Gains on bonds and derivatives in the first quarter came to NOK 25m (-3m). The Bank's bond portfolio carries low risk throughout.

Gains on financial instruments at SpareBank 1 SMN Markets totalled NOK 10m (8m).

Return on financial investments, NOKm	31 March 2011	31 March 2010
Capital gains/dividends, shares	30	-10
Bonds and derivatives	25	-3
SpareBank 1 SMN Markets	10	8
Net return on financial investments	65	-5
SpareBank 1 Gruppen AS	31	22
SpareBank 1 Boligkreditt AS	6	6
SpareBank 1 Næringskreditt AS	1	0
Bank1 Oslo AS	4	7
BN Bank ASA	14	13
Other jointly controlled companies	-3	-7
Income from investment in related companies	54	41
Total	118	36

SpareBank 1 Gruppen AS

SpareBank 1 Gruppen's post-tax profit in the first quarter 2011 was NOK 152m (93m). SpareBank 1 Livsforsikring AS and SpareBank 1 Skadeforsikring AS are the main contributors to the profit.

SpareBank 1 SMN's share of the profit was NOK 31m (22m).

SpareBank 1 Boligkreditt AS

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. By transferring their highest quality home mortgage loans to the company, the SpareBank 1 banks benefit from reduced funding costs and increased competitive power.

The Bank's equity stake in SpareBank 1 Boligkreditt AS is 19.6%, and the Bank's share of the company's profit in the first quarter 2011 was NOK 6m (6m).

SpareBank 1 Næringskreditt AS

In 2009 the SpareBank 1 banks established SpareBank 1 Næringskreditt AS along the same lines, and with the same administration, as SpareBank 1 Boligkreditt AS.

As from January 2011 SpareBank 1 SMN stake in the company rose to 37%, and the Bank's share of the company's profit for the first quarter 2010 was NOK 1m (0m).

As of end-March 2011 SpareBank 1 Næringskreditt AS had purchased loans worth NOK 8.2bn from BN Bank and issued covered bonds to a value of NOK 7.0bn. The bonds were utilised in the swap arrangement with Norges Bank.

Bank 1 Oslo AS

SpareBank 1 SMN has a stake of 19.5% in Bank 1 Oslo AS. SpareBank 1 SMN's share of the profit of Bank 1 Oslo AS was NOK 4m (7m) in the first quarter 2011.

BN Bank ASA

SpareBank 1 SMN's equity stake in BN Bank ASA was 33% as of end-March 2011.

SpareBank 1 SMN's share of the profit of BN Bank for the first quarter 2011 was NOK 14m (13m), including amortisation effects.

Polaris Media ASA

SpareBank 1 SMN acquired 18.81% of the shares of Polaris Media AS on 28 March 2011. The shares, posted as security for a loan, were taken over by the Bank as a result of the bankruptcy of Roll Severin Co AS. This brought the SpareBank 1 SMN Group's holding in Polaris Media ASA to 23.45%, and the company is therefore classified as an affiliate of SpareBank 1 SMN.

The shares are taken over at a value of NOK 27 per share, plus a recommended dividend of NOK 1.50 per share. Dividend pay-out is expected in the course of the second quarter.

Other companies

These companies were essentially established to handle corporate exposures taken over from other entities. The negative result of NOK 3m essentially represents reduced asset values in these companies.

Venture in Ålesund

SpareBank 1 SMN signed in 2009 an agreement with BN Bank to take over BN Bank's operation in Ålesund. BN Bank's customers are being successively converted to SpareBank 1 SMN and will for a period be guaranteed by BN Bank against a guarantee commission. By the end of the first quarter 2011 customers representing loans totalling NOK 2.9bn and deposits with an overall balance of NOK 1.1bn had been converted to SpareBank 1 SMN. As of end-March 2011 a loan portfolio of NOK 0.8bn and deposits worth NOK 0.4bn had yet to be converted.

SpareBank 1 SMN also assumed responsibility for employees, leases and other commitments in Ålesund. The Bank receives compensation from BN Bank ASA for its outlays in the initial years based on a phase-out model. The BN Bank portfolio underlies SpareBank 1 SMN's venture in Sunnmøre.

Operating expenses

Overall costs came to NOK 348m (206m) in the first quarter 2011. The write-back in the first quarter 2010 of pension liabilities accumulated under the AFP (early retirement) scheme came to NOK 117m, and comparable costs in the first quarter 2010 are NOK 323m. Group operating expenses have thus increased by NOK 25m or 7.8%.

Parent Bank costs rose by NOK 14m, corresponding to 5.8%. The cost increase is ascribable to pay growth and to higher costs related to the new head office.

Overall costs at the Bank's subsidiaries rose by NOK 9m, corresponding to 12.1%, which is mainly ascribable to an increased resource input at Eiendomsmegler 1. The latter's incomes rose by NOK 12m in the same period.

By the end of the first quarter 2011 the effect of measures implemented so far under the cost-reduction programme "170 million in 2012" was NOK 150m.

These will be the most important measures in 2011:

- Simplifying and improving the credit process in the Retail and Corporate market Divisions

- Downscaling the branch network
- Streamlining support functions

Operating expenses were 1.45% of average total assets (1.52%). The Group's cost-income ratio was 52% (61%). The figures for 2010 are exclusive of the write-back of early retirement (AFP) liabilities.

Losses and defaults

In the first quarter 2010 incomings of NOK 6m, net, were recorded on loan losses (loss of NOK 68m).

A net loss of NOK 7m was recorded on the Group's corporate customers (loss of NOK 62m), including losses of NOK 4m (9m) at SpareBank 1 SMN Finans. New individually assessed impairment write-downs in 2011 have been low and write-backs have been recorded on two individual exposures. A net loss of NOK 1m was recorded on the retail portfolio (3m) in the first quarter 2011.

Individual write-downs on loans came to NOK 217m (267m) as of the first quarter, a decline of NOK 50m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 680m (1,021m), or 0.77% (1.28%) of gross outstanding loans at end-March 2011.

Defaults in excess of 90 days came to NOK 477m (331m), an increase of NOK 146m. Defaults measure 0.54% (0.42%) of gross lending. Of overall defaults, NOK 96m (71m) or 20% (21%) are loss provisioned.

Other doubtful exposures totalled NOK 202m (690m), measuring 0.23% (0.87%) of gross lending. NOK 122m (196m) or 60% (28%) are loss provisioned.

Increased defaults and a reduction in other doubtful exposures are related to the write-off of losses on some sizeable bad loans, and to the fact that certain doubtful exposures were reclassified to long default over the course of the fourth quarter 2010.

Collectively assessed loss write-downs

Collective assessment of loss write-downs is based on two factors:

- events that have affected the Bank's portfolio (causing migration between risk categories)
- events that have not yet affected the portfolio since the Bank's credit risk models do not capture the effects rapidly enough (e.g. macroeconomic factors).

In the first quarter no basis has been found for revising collectively assessed write-downs at the Parent Bank. A reduction of NOK 2m has been carried out at SpareBank 1 SMN Finans, bringing the aggregate volume of such write-downs to NOK 290m (292m).

Total assets of NOK 94bn

The Bank's assets totalled NOK 94bn as of end-March 2011 as against NOK 85bn one year previously. The increase is mainly ascribable to lending growth.

As of the first quarter 2011, NOK 20.1bn (17.7bn) had been transferred by SpareBank 1 SMN to SpareBank 1 Boligkreditt AS. These loans do not figure as lending in the Bank's balance sheet. The comments dealing with growth in lending include loans transferred to SpareBank 1 Boligkreditt.

Lending and deposit growth

As of the first quarter 2011 total outstanding loans came to NOK 88.6bn (including SpareBank 1 Boligkreditt), having risen by NOK 9.0bn (7.2bn) or 11.4% (10.0%) over the preceding 12 months.

12-month growth in lending to corporates was NOK 4.6bn (4.2bn) or 13.9% (14.2%). Of this growth, loans transferred from BN Bank in Ålesund accounted for NOK 2.0bn. Overall lending to corporates came to NOK 38.0bn as of the first quarter 2011.

Lending to retail customers rose by NOK 4.4bn (3.0bn) to NOK 50.6bn over the preceding 12 months, corresponding to growth of 9.6% (7.0%).

Lending to retail customers measured 57% (58%) of ordinary loans to customers as of the first quarter 2011.

In the last 12 months customer deposits rose by NOK 5.3bn (2.5bn) or 14.1% (7.6%) to reach NOK 42.9bn as of the first quarter 2011.

Retail customer deposits rose by NOK 1.2bn (1.3bn) or 6.8% (7.8%) to NOK 19.3bn, while deposits from corporates rose by NOK 4.1bn (NOK 1.3bn) or 20.8% (7.3%) to NOK 23.6bn.

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 4.9bn at end-March, an increase of 3% since the first quarter 2010. The increase is essentially ascribable to higher values of equity funds and portfolios under management at Allegro Finans ASA.

Saving products, customer portfolio, NOKm	31 March 2011	31 March 2010	Change
Equity funds	2,416	2,270	146
Pension products	810	907	-97
Active management	977	654	323
Energy fund management	291	501	-210
Property funds	447	447	0
Total	4,941	4,779	162

Insurance products

The Bank's insurance portfolio grew by 15% in the last 12 months, with a rise of 16% for non-life insurance, 8% for personal insurance and 21% for occupational pensions.

Insurance, premium volume, NOKm	31 March 2011	31 March 2010	Change
Non-life insurance	581	499	82
Personal insurance	159	147	12
Occupational pensions	130	107	23
Total	870	753	117

Strong profitability and good growth in the retail market

The retail market business achieved a return on equity of 22.7% (21.4%) in the first quarter 2011. High profitability is ascribable both to a sound profit performance and low risk exposure in the retail market business. This results in a relatively low allocation of capital to be serviced. As of 31 March 2011 capital allocated to the Retail Market Division totalled NOK 1,053m (1,063m).

Operating income has risen, and totalled NOK 234m in the first quarter 2011 (220m). Net interest income totalled NOK 144m (133m) and commission income NOK 89m (88m).

The lending margin in the first quarter 2010/11 was 1.48% (1.47%), while the deposit margin was 0.49% (0.43%).

In the last 12 months lending to retail customers rose by 9.4% (6.4%) and deposits from the same segment by 4.9% (1.0%).

Lending to retail borrowers generally carries low risk, as reflected in continued very low losses. Losses and defaults are expected to remain low. The loan portfolio is secured by residential property, and the trend in house prices has been satisfactory throughout the market area.

Retail market (NOKm)	31 March 2011	31 March 2010	Change
Net interest income	144	133	12
Commission and other income	89	88	2
Total income	234	220	13
Operating expenses	150	138	12
Pre-loss profit	84	82	2
Losses	1	3	-2
Profit before tax	83	79	4
ROE after tax	22.7 %	21.4 %	
Allocated capital (NOKm)	1,053	1,063	
Loans (NOKbn)	47.9	43.8	4.1
Deposits (NOKbn)	19.3	18.4	0.9

The Retail market Division is part of the Parent Bank, and therefore does not include figures for the Bank's subsidiaries.

Increased profitability and balanced growth in the Corporate market Division

The Corporate market Division reported a return on equity of 18.9% (8.8%). The improvement is due both to increased income and reduced loan losses.

Capital allocated to the corporate market business as end-March 2011 came to NOK 2,803m (2,738m).

With total operating income of NOK 259m in the first quarter 2011 (217m), the corporate market business achieved income growth of NOK 42m compared with the same period of 2010.

Net interest income totalled NOK 218m (185m), while commission income came to NOK 41m (32m).

Lending and deposit margins in the division were, respectively, 2.18% (2.14%) and 0.24% (0.22%). Lending grew by 15.4% and deposits by 15.9%. 6.4 percentage points of the growth in lending is ascribable to loans taken over from BN Bank Ålesund.

Corporate market (NOKm)	31 March 2011	31 March 2010	Change
Net interest income	218	185	33
Commission and other income	41	32	9
Total income	259	217	42
Operating expenses	86	80	6
Pre-loss profit	173	137	36

Losses	-11	53	-64
Profit before tax	183	84	100
ROE after tax	18.9 %	8.8 %	
Allocated capital (NOKm)	2,803	2,738	
Loans (NOKbn)	36.5	31.6	4.9
Deposits (NOKbn)	21.8	18.8	3.0

The Corporate market Division is part of the Parent Bank, and therefore does not include figures for the Bank's subsidiaries.

SpareBank 1 SMN Markets

SpareBank 1 SMN Markets delivers a complete range of capital market products and services, and has strengthened staffing in its share trading, forex and corporate finance areas.

SpareBank 1 Markets reported total income of NOK 26m (16m) in 2010. An increase in income was noted on forex and securities trading compared with 2010.

Markets (NOKm)	31 March 2011	31 March 2010	Change
Currency trading	11.0	6.9	4.1
Fixed income products	4.3	5.4	-1.1
Corporate	1.1	1.0	0.1
Securities, brokerage commission	9.5	2.9	6.5
Total income	25.9	16.2	9.6

Of gross income of NOK 25.9, NOK 5.3m has been transferred to the Corporate Market Division and NOK 0.5m to the Retail Market Division. These are the respective divisions' share of income on forex and fixed-income on their own customers.

Subsidiaries

The Bank's subsidiaries posted an aggregate pre-tax profit of NOK 37m (6m) in the first quarter 2011.

Pre-tax profit, NOKm	31 March 2011	31 March 2010
EiendomsMegler 1 Midt-Norge	12.4	5.5
SpareBank 1 SMN Finans	8.6	6.8
SpareBank 1 SMN Regnskap	2.1	8.1
Allegro Finans	-0.6	-0.5
SpareBank 1 SMN Invest	21.0	-12.5
SpareBank 1 Kvartalet	-5.4	0.2
Total	38.1	7.6

EiendomsMegler 1 Midt-Norge AS leads the field in its catchment area with a market share of 40%. The company's profit of NOK 12m (6m) in the first quarter is very satisfactory.

SpareBank 1 SMN Finans AS posted a profit of NOK 9m (7m) in the first quarter. The company has a robust earnings base, and first quarter income totalled NOK 22m. Losses on leases came to NOK 4m in the first quarter compared with NOK 12m in the same period last year. At quarter-end the company managed leases and car loan agreements worth a total of NOK 2.7bn of which leases accounted for NOK 1.8bn.

The business includes the subsidiary SpareBank 1 Bilplan AS which specialises in car fleet management and administers 3,200 vehicles.

SpareBank 1 SMN Regnskap AS posted a pre-tax profit of NOK 2m (8m). The result for 2010 is influenced by the write-back of early retirement (AFP) liabilities. In the first quarter of 2011 SpareBank 1 SMN Regnskap AS acquired three accountancy firms in Namsos and Steinkjer and two in Trondheim. The company's turnover will rise by an estimated NOK 25m as a result of these acquisitions.

Allegro Finans ASA reported a loss of NOK 1m (loss of NOK 1m) before tax in the first quarter of 2011. The company has a portfolio of about NOK 1bn under active management.

The mission of **SpareBank 1 SMN Invest AS** is to invest in shares, mainly in regional listed companies. The company posted a profit of NOK 21m in the first quarter of 2011 (loss of NOK 13m). The result is in its entirety linked to gains on the company's share portfolios.

Satisfactory funding and good liquidity

The Bank has a conservative liquidity strategy. This strategy stresses the importance of maintaining liquidity reserves sufficient to ensure the Bank's ability to conduct ordinary operations for a period of 12 months without recourse to new external funding.

The Bank has liquidity reserves of NOK 16bn and thus has the funding needed for 18 months of ordinary operations without fresh external finance.

The Bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 71% (84%).

SpareBank 1 Boligkreditt is the Bank's chief source of funding, and in the first quarter 2011 loans totalling a further NOK 2.2bn were transferred to this residential mortgage company. As of end-March 2011 loans totalling NOK 20 billion has been transferred to SpareBank 1 Boligkreditt.

In the third quarter SpareBank 1 SMN raised a loan of EUR 500m in the euromarket with a term of 3.5 years. The loan reflects the Bank's strategy of diversifying its funding sources.

Rating

In March 2011 FitchRatings revised its long-term rating from 'A' with a negative outlook to 'A-' with a stable outlook. In September 2010 Moody's Investor Service upgraded its outlook for the Bank's long-term debt (A1) from a negative outlook to a stable outlook (see issued stock exchange notices).

Strong financial position

As of the first quarter 2011 the tier 1 capital adequacy ratio was 10.6% (11.0%) and the total capital adequacy ratio was 12.5% (13.5%).

The Group aims for a tier 1 capital adequacy ratio of a minimum of 9% and a total capital adequacy ratio of 12%.

The Bank is IRB approved and uses the IRB foundation approach to compute capital charges for credit risk.

Figures in NOKm	31 March 2011	31 March 2010
Tier 1 capital	7,330	6,880
Subordinated loan	1,308	1,539
Capital base	8,638	8,418

Required subordinated debt	5,537	4,999
Tier 1 capital ratio	10.6 %	11.0 %
Total capital ratio	12.5 %	13.5 %

The Bank's equity capital certificate (MING)

The book value of the Bank's ECC was NOK 49.34 at end-March 2011, and earnings per ECC were NOK 1.64.

The price at end-March 2011 was NOK 50.00, and a dividend of NOK 3.00 per ECC was paid in 2011 for the year 2010.

The Price / Income ratio was 7.60, and the Price / Book ratio was 1.01 as of end-March 2011.

Risk factors

The international financial crisis affected the economy of Norway as of other countries. Unemployment did not rise in the course of 2010, but an expected increase in the labour force could bring a moderate increase in unemployment in 2011. Demand for credit is now growing after a period of low demand.

The Bank's results are affected directly and indirectly by the fluctuations in securities markets. The indirect effect relates to the Bank's equity stake in SpareBank 1 Gruppen AS.

The Bank is also exposed to risk with regard to access to external funding. This is reflected in the Bank's conservative liquidity strategy (see also the preceding section on funding and liquidity).

The credit quality of the Bank's loan portfolio is satisfactory, and loss and default levels are low. As from 2008 the cooling of the Norwegian economy has brought increased loss levels in Norwegian financial institutions. Early in 2011 Norway's macroeconomic prospects are better than anticipated one to two years ago, and the outlook for 2011-2012 points to growth in the Norwegian economy. This will in isolation have a positive impact on the Bank's credit portfolio.

Outlook ahead

SpareBank 1 SMN is well capitalised and has robust funding. The Board of Directors' focus is on sound growth and strengthening the Group's market position. Through the cost reduction programme "170 million in 2012", the Board aims to enhance the Group's competitive power.

The Board is satisfied with the Group's performance for the first quarter 2011 and, assuming a continued positive trend in the national and regional economy, the Board expects a good result for the full year 2011.

Trondheim, 5. mai 2011

The Board of Directors of SpareBank 1 SMN

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